

SAINT MARY VILLA, INC.

Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

SAINT MARY VILLA, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Saint Mary Villa, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Mary Villa, Inc. (the "Organization") which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Mary Villa, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Adjustments to Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2014, were audited by other auditors whose opinion dated September 26, 2014, expressed an unmodified opinion on those financial statements. As discussed in Note 11 to the financial statements, the Organization has adjusted its net assets as of July 1, 2014 to include the Organization's beneficial interest in a trust as required by accounting principles generally accepted in the United States of America. The other auditors reported on the 2014 financial statements before the restatement.

As part of our audit of the 2015 financial statements, we also audited the adjustments to the Organization's net assets as of July 1, 2014 to record the beneficial interest in a trust as described in Note 11. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Organization's 2014 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.


Brentwood, Tennessee
January 14, 2016

SAINT MARY VILLA, INC.

Statement of Financial Position

June 30, 2015

Assets

Current assets:

Cash and cash equivalents	\$ 146,501
Accounts receivable, less allowance for doubtful accounts of \$488	9,660
United Way grant receivable	176,902
Inventory	494
Prepaid expenses	<u>1,206</u>

Total current assets 334,763

Equipment and leasehold improvements, net	14,372
Beneficial interest in trusts	<u>4,093,776</u>

Total assets \$ 4,442,911

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 120,736
Deferred revenue	<u>14,087</u>

Total liabilities 134,823

Net assets:

Unrestricted:

Unrestricted for operations	23,038
Designated for long-term growth	558,366
Equity in physical plant	<u>14,372</u>

Total unrestricted net assets 595,776

Temporarily restricted 1,031,429

Permanently restricted 2,680,883

Total net assets 4,308,088

Total liabilities and net assets \$ 4,442,911

See accompanying notes to the financial statements.

SAINT MARY VILLA, INC.

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Program service fees	\$ 1,032,872	\$ -	\$ -	\$ 1,032,872
Change in value - beneficial interest in trusts	(12,799)	(41,678)	6,646	(47,831)
Contributions and other	81,080	-	-	81,080
United Way services	-	176,902	-	176,902
Distributions from beneficial interests in trusts	154,074	-	-	154,074
USDA reimbursement	61,058	-	-	61,058
Interest income	1,191	-	-	1,191
Net assets released from restrictions	<u>176,902</u>	<u>(176,902)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>1,494,378</u>	<u>(41,678)</u>	<u>6,646</u>	<u>1,459,346</u>
Expenses:				
Salaries and wages	875,360	-	-	875,360
Employee benefits	210,003	-	-	210,003
Occupancy	147,301	-	-	147,301
Supplies and general expenses	96,662	-	-	96,662
Payroll Taxes	66,724	-	-	66,724
Purchased services-cleaning	21,779	-	-	21,779
Professional services	66,507	-	-	66,507
Bad debt	7,069	-	-	7,069
Miscellaneous	5,676	-	-	5,676
Travel and meetings	3,831	-	-	3,831
Insurance	5,312	-	-	5,312
Depreciation	3,386	-	-	3,386
Postage and printing	1,421	-	-	1,421
Marketing and public relations	653	-	-	653
Telephone	<u>999</u>	<u>-</u>	<u>-</u>	<u>999</u>
Total expenses	<u>1,512,683</u>	<u>-</u>	<u>-</u>	<u>1,512,683</u>
Revenues, gains and other support over (under) expenses	(18,305)	(41,678)	6,646	(53,337)
Net assets, beginning of year (as restated)	<u>614,081</u>	<u>1,073,107</u>	<u>2,674,237</u>	<u>4,361,425</u>
Net assets, end of year	<u>\$ 595,776</u>	<u>\$ 1,031,429</u>	<u>\$ 2,680,883</u>	<u>\$ 4,308,088</u>

See accompanying notes to the financial statements.

SAINT MARY VILLA, INC.

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:	
Change in net assets	\$ <u>(53,337)</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:	
Depreciation	3,386
Bad debt expense	7,069
Change in value of beneficial interest in trusts	47,831
 (Increase) decrease in operating assets:	
Accounts receivable	16,983
Inventory	(304)
Prepaid expenses	(285)
 Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(7,237)
Deferred revenue	<u>14,087</u>
 Net cash provided by operating activities	28,193
Cash flows from investing activities - purchases of equipment	<u>(4,955)</u>
 Increase in cash and cash equivalents	23,238
Cash and cash equivalents at beginning of year	<u>123,263</u>
Cash and cash equivalents at end of year	\$ <u><u>146,501</u></u>

See accompanying notes to the financial statements.

SAINT MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2015

(1) Nature of activities

Saint Mary Villa, Inc. (the "Organization") is a Tennessee not-for-profit organization. The Organization's mission is to support families by providing affordable, quality day care, after school care and educational programs in a safe, healthy, nurturing and multi-cultural environment, promoting intellectual, physical, social and moral development of the child. The Organization operates one full-time child care facility with after-school care available at three additional locations. The Organization is governed by a board of trustees that is approved by the Corporate Members of the Diocese of Nashville, Tennessee.

(2) Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

(a) Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Organization follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same year as revenues in the unrestricted net asset class.

SAINT MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2015

(b) Cash equivalents

The Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

(c) Accounts receivable and credit policies

The Organization reports accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be realized. The Organization reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, as well as review of specific accounts, and makes adjustments in the allowance as necessary.

(d) Equipment and Leasehold Improvements

Equipment and leasehold improvements are carried at cost. Depreciation and amortization is provided using the straight-line method at rates based on estimated useful lives ranging from five to fifteen years, with no estimated salvage value. Donated equipment is recorded at its' estimated market value at the date of the gift. Leasehold improvements are amortized over the shorter of their estimated useful lives or the respective lease term.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in unrestricted net assets.

(e) Beneficial interests in trusts

The Organization is a beneficiary of the MJ Smith Family Foundation Trust ("MJ Smith Trust"), the Endowment for the Advancement of Catholic Schools ("EACS"), and the Frank Givens Trust (collectively, the "Trusts"). The assets of the Trusts are not in the possession of the Organization. The Organization has legally enforceable rights and claims to such assets, including the sole right to income related to its interest in the Trusts. Distributions received from the Trusts are unrestricted. The change in the beneficial interest in trusts is reported as changes in permanently restricted net assets for the MJ Smith Trust, temporarily restricted net assets for the Frank Givens Trust and unrestricted net assets for EACS.

EACS is an endowed perpetual trust comprised of assets held by a trustee. The trust agreement calls for a quarterly distribution of interest, dividends, and capital gains, both realized and unrealized, as determined by the trustee and its advisors of which 18% of the total is distributed to the Organization.

SAINT MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2015

The M.J. Smith Trust is a perpetual trust held by a local bank. The Organization has no investment or ownership control of the assets in the trust. Distributions from this trust are determined annually based upon an amount equal to 3.5% of the trust's market value on the last day of the previous tax year and paid to the Organization in equal monthly installments.

The Frank Givens Trust includes assets held by a trustee and is scheduled to terminate on March 28, 2059 at which time the Organization will receive one-third of the value of the assets held in the trust. The trustee is authorized to make annual distributions equal to five percent of the net fair market value of the principal of the trust, with such value determined by averaging the net fair market value of the principal of the assets held in the Frank Givens Trust on the close of the last business day of each of the immediately preceding three calendar years. The Organization is entitled to one-third of the annual distributions from the Frank Givens Trust.

(f) Revenue recognition

Deposits received for services fees are shown as deferred revenues until earned. Day care program revenue and related fees are recognized as income as the day care services are provided.

Cash contributions are recognized as revenue when received.

(g) Income Taxes

The Organization is a not-for-profit corporation and is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The School does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any asset or liability for unrecognized tax benefits.

As of June 30, 2015, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Organization files a U.S. Federal information tax return. The Organization is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after June 30, 2012.

SAINT MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2015

(h) Advertising

The Organization's advertising is non-direct, and the costs are expensed as incurred. The Organization incurred \$653 of advertising expenses in 2015.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2015 and January 14, 2016 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Cash and Cash Equivalents

The Organization generally maintains cash on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

(4) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following as of June 30, 2015:

Equipment	\$ 179,663
Leasehold improvements	<u>450,631</u>
	630,294
Accumulated depreciation	<u>(615,922)</u>
	\$ <u>14,372</u>

Depreciation expense for the year ended June 30, 2015 amounted to \$3,386.

(5) Endowments

The Organization's endowments consist of beneficial interests in trusts established for the purpose of ensuring its future operations. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SAINT MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2015

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014 \$	571,165	\$ 896,205	\$ 2,674,237	\$ 4,141,607
Change in beneficial interest	<u>(12,799)</u>	<u>(41,678)</u>	<u>6,646</u>	<u>(47,831)</u>
Endowment net assets, June 30, 2015 \$	<u>558,366</u>	<u>\$ 854,527</u>	<u>\$ 2,680,883</u>	<u>\$ 4,093,776</u>

The endowment funds are held in trusts and call for distributions throughout the year which are available for the Organization's unrestricted use. The distributions totaled \$154,074 for the year ended June 30, 2015. See Note 2(e) for further information about the individual trusts, their restrictions and spending policies.

Notes to the Financial Statements

June 30, 2015

(6) Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Given the inability to compute the present value of the perpetual income stream from certain trusts, the beneficial interest in trusts has been recorded on the statement of financial position at the fair value of the underlying assets of each trust using information obtained from third party sources, including detail listings of holdings from the trusts. The trusts consist primarily of marketable equity securities, mutual funds, corporate and international bond funds and governmental bonds. The net asset value is not a publicly-quoted price in an active market (Level 2). The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2015.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of grants from United Way that are restricted to use during the next fiscal year and the Organization's beneficial interest in the Frank Givens Trust which is restricted until the trust's termination on March 28, 2059.

(8) Retirement Plans

Defined Benefit Plan

The Organization participates in a non-contributory defined benefit pension plan which is funded based on the required contribution each year determined by the Diocesan Lay Retirement Board of Trust, and is calculated as a percentage of eligible employees' salaries. During 2015, the Organization contributed 5% of the eligible employees' compensation to the plan each year. Participants vest in all employer contributions to the plan as follows: after three years of service 20%, increasing 20% for each year of additional service until participants are fully vested after seven years of service.

SAINT MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2015

The following table sets forth the benefit obligations, fair value of plan assets, and funded status (in thousands) of the noncontributory pension plan in which the Organization is a participant as of January 1, 2015:

Benefit obligation at end of plan year	\$ (37,970)
Plan assets at fair value at end of plan year	<u>39,913</u>
Funded Status	\$ <u>1,943</u>

Lay Employee Retirement Savings Plan

The Organization participates in a defined contribution retirement savings plan as a supplement to the defined benefit pension plan. Participants in the defined contribution retirement savings plan are permitted to contribute 100% of their compensation subject to certain Internal Revenue Code limitations. For those employees participating in the defined contribution retirement savings plan, the Organization contributes a 100% match of 3% of the participating employee's compensation. Participants are 100% vested in their contributions and the employers' matching contribution.

Contributions to both retirement plans amounted to \$50,578 in 2015.

(9) U.S. Department of Agriculture Grant

The Organization receives reimbursement from the U.S. Department of Agriculture ("USDA") for the Child Care Food Program (CFDA #10.558) in accordance with policy directives issued by the USDA and 7 CFR USDA Uniform Federal Assistance Regulations. Total food costs included in supplies and general expenses amount to \$65,055 and the reimbursable portion totaled \$58,388 for the year ended June 30, 2015. A schedule of grant activity for fiscal year 2015 is as follows:

Balance receivable at June 30, 2014	\$ 4,661
Reimbursable Expenditures	58,388
Receipts	<u>(57,852)</u>
Balance receivable at June 30, 2015	\$ <u>5,197</u>

SAINT MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2015

(10) Transactions with the Catholic Diocese of Nashville and Related Organizations

Significant transactions with related parties not disclosed elsewhere in the financial statements as of and for the year ended June 30, 2015 include:

Significant transactions with Governance and Services Office of the Catholic Diocese of Nashville:

Occupancy expense	\$ <u>122,364</u>
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Significant transactions with Mary Queen of Angels, Inc. include:

Health insurance claims	\$ <u>13,826</u>
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Significant transactions with Catholic Charities of Tennessee, Inc. ("Catholic Charities") include:

Contribution income	\$ <u>36,750</u>
Amounts due to Catholic Charities	\$ <u>36,520</u>
Management fees	\$ <u>55,182</u>

The Organization has a management contract with Catholic Charities. Under the terms of this contract, Catholic Charities provides for certain administrative support, including operational, finance and accounting, human resource and general administrative services. Fees for such services are included in management fees above. Subsequent to June 30, 2015, the Organization renegotiated its management services contract with Catholic Charities. As a result, Catholic Charities has majority voting rights in substantially all matters of the Organization.

(11) Restatement

During 2015, management of the Organization determined that the Organization's beneficial interest in the Frank Givens Trust (see Note 2(e)) should have been recorded as an asset prior to 2015 in order to be in accordance with U.S. generally accepted accounting principles. As a result, the Organization has restated its beginning net assets as of July 1, 2014. The effect of the restatement was to increase temporarily restricted net assets and increase its beneficial interest in trusts by \$896,205 as of July 1, 2014.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Saint Mary Villa, Inc.:

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Saint Mary Villa, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter which is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as 2015-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBMC, PC

Brentwood, Tennessee
January 14, 2016

Schedule of Findings and Responses

June 30, 2015

Findings - Financial Statement Audit

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2015-01	Income Verification Requirement	Uncorrected

Criteria: The United States Department of Agriculture ("USDA") provides assistance to low income families through its Child and Adult Care Food Program, by either fully or partially reimbursing meal expenses. The USDA issues annual income eligibility guidelines for free and reduced price meals, which are used to determine which families qualify for reimbursement, based upon both total household size and income.

Condition: Through our testing of these reimbursements, we noted that while the Organization does require families to complete an income eligibility application upon the family's entrance to the program, it was noted that income verification (such as a W-2) for parents was not obtained in certain circumstances, to confirm amounts reported therein.

Effect: The Organization does not currently have a process in place which adequately confirmed each family's income eligibility. Therefore, there could be recipients of the assistance that do not meet the eligibility requirements.

Auditors' Recommendation: The Organization should begin to obtain annual income verification for every family receiving meal reimbursements under the USDA program.

Response: The Organization does not believe that any ineligible recipients were receiving benefits from the program based on management's knowledge of the participating families and other information obtained from the participants. However, the Organization will formally document the income verification for all families on an annual basis, prospectively.

SAINT MARY VILLA, INC.

Schedule of Prior Findings and Responses

June 30, 2015

No prior year findings were noted.